

S E C R E T

DEPARTMENT OF STATE

EXECUTIVE SECRETARIAT

Senior Interdepartmental Group

June 1, 1966

Record of Agreements and Decisions

Meeting of May 31, 1966

Present:

The Under Secretary of State
(Chairman)

The Deputy Secretary of Defense

The Chairman, Joint Chiefs of Staff

The Director, CIA

The Deputy Director, USIA (for Mr. Marks)

The Deputy Administrator, AID (for Mr. Bell)

The Deputy Under Secretary of State for Political
Affairs

The Special Assistant to the President,
Mr. Walt W. Rostow

The Staff Director

Commerce - Secretary Connor

Treasury - Under Secretary Barr

Ex-Im Bank - Mr. Sauer

EVR - Mr. Stoessel

E - Mr. Solomon

A) Export-Import Bank Loan for Fiat-Russian Plant

Agreed:

- a) That the Export-Import Bank loan to IMI would be in U.S. interest;
- b) that the Export-Import Bank should seek repayment terms of five years plus a grace period comparable to that offered the Russians by the Italians;

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- a) that State should prepare a paper for the President setting forth all the alternatives in addition to the foregoing position adopted by the SIG;
- b) that, if the President agrees, appropriate members of the Congress be informed, without implying there is any legal obligation to do so;
- c) that State should prepare a talking-point paper for use with certain members of Congress, including key members of the Ways and Means, Finance, Banking and Currency, Foreign Relations, and Appropriations Committees;
- d) that both papers should set forth the relevance of the loan to IMI to the proposal for the licensing for export from the U.S. to the USSR of a sheet steel mill that would produce sheet steel suitable for automobile manufacture;
all is being done for USSR.
- e) that, as of further assistance to these presentations, ~~CIA~~ in collaboration with E, Mr. Anthony Solomon, will prepare a study of U.S. and certain Western European countries for the purpose of showing a curve of investments accompanying or following a sharp rise in automobile production, ^{here} and the resource implications thereof.


Harry H. Schwartz
Staff Director, SIG

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Mr. Walt W. Rostow

The Staff Director

ARA - Mr. Sayre

NASA - Mr. Frutkin

B) Antigua Deep Water Port

Mr. Walter Sauer said that the Export-Import Bank will finance half the cost if the other half is financed by another agency, or agencies.

It was agreed:

- a) That the U.S. should fulfill its obligation to finance the project;
- b) Defense will reexamine the possibilities of being of assistance in this respect;
- c) that SIG will consider the matter again at its next meeting.

31 May 1966

SUBJECT : Comments on Possible Export-Import Bank Loan for Fiat-Russian Plant

REFERENCE: Memorandum of 27 May 1966, "Some Economic Implications of Possible Export-Import Bank Loan for Fiat-Russian Plant"

1. The effect of the Fiat-Russian agreement on the consumption habits of the Russians is not relevant to the question of granting an Export-Import Bank loan to the Instituto Mobiliare Italiano (IMI). The decision by the USSR to purchase a Fiat plant is related to the new Five Year Plan to expand production of passenger automobiles sharply, which moves the economy in a direction that would appear to favor US interests. However, so far as we know, the agreement between Fiat and the USSR is not contingent on Export-Import Bank credit to Fiat's financiers.

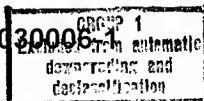
2. Extension of an Export-Import Bank loan to the IMI would almost certainly increase Fiat purchases from US manufacturers. (See referenced memo.) If the loan is granted, the Export-Import Bank will be indirectly assisting in the extension of long-term credit to the USSR.

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SUBJECT: Export-Import Bank Loan for Fiat-Russian Plant

The Bank has asked for foreign policy guidance as to its considering a loan of up to \$50 million to the (Istituto Mobiliare Italiane) for the purchase of U. S. machine tools for installation in the plant Fiat is to construct in the USSR.

The Fiat arrangement with the Russians involves a \$600 million transaction, \$300 million of which is to be local currency, supplied by the Russians, and the remaining \$300 million would be foreign exchange costs provided on a loan basis by the Fiat people through IMI.

The plant would produce only passenger cars and these at the rate of 2,000 a day. It is expected that this produce would be a four-cylinder car like the Fiat 1200.

The IMI financing will be in the form of a \$300 million loan to Russia repayable over eight and a half years commencing in 1971. Interest would be about 5 1/2%. There is only a small grace period since the final drawdown on the loan will not be consummated until 1970.

Fiat has indicated that about \$200 million of the loan would be used for capital equipment purchases in Italy, but that about \$100 million of foreign purchases, including up to \$50 million of U. S. purchases (machine tools), would be required. IMI would like to borrow the amount of U. S. purchases from the EX-IM Bank.

The Bank has informed the Italians that they see some difficulties with this transaction because it involves the Bank doing indirectly what it can't do directly (i.e., lend to the Russians).

However,

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However, the Bank has indicated it is prepared to look at the proposal but it first needs to raise it at a political level in the United States Government. The Italians claim that they had already received U. S. political clearance for the deal with the Russians, but the Bank has correctly pointed out that it is one thing for the U. S. Government to give political clearance for a deal in which it is not involved and another when its own participation is requested.

If the Bank does go ahead and loan money to IMI, it would be on terms no more favorable than IMI's terms to Russia.

Action Requested:

The Bank now desires political guidance as to how it should handle the fiat/INI request. Should they turn it down because it might be construed as an indirect loan to Russia? Or, given the impact of the project on Russian consumption habits (and its attitude toward the West), together with the fact that the borrower is the Bank's old friend IMI, is it in U. S. interests to proceed and make the loan?

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